

P-421/CP-87-189 ORDER REQUIRING REFILED COST STUDY AND PROPOSED  
RATES

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner
Norma McKanna	Commissioner

In the Matter of the Petition of Certain Subscribers in the LeSueur Exchange for Extended Area Service to the Minneapolis/St. Paul Metropolitan Calling Area	ISSUE DATE: September 28, 1992  DOCKET NO. P-421/CP-87-189  ORDER REQUIRING REFILED COST STUDY AND PROPOSED RATES
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**PROCEDURAL HISTORY**

On March 31, 1987, subscribers in the LeSueur exchange served by US West Communications, Inc. (USWC) filed a petition requesting extended area service (EAS) to the Minneapolis/St. Paul \*metropolitan calling area (MCA). That petition was included in the then-pending consolidated metro EAS proceeding, Docket No. P-421 et al./CI-87-76.

In the spring of 1990, the Legislature passed a law regulating the installation of EAS. Minn. Stat. § 237.161 (1990).

In its June 26, 1990 ORDER AFTER RECONSIDERATION OF JUNE 20, 1989 ORDER IN LIGHT OF MINNESOTA STATUTE § 237.161 (1990) the Commission found that the LeSueur petition did not meet the first criterion of the EAS law because it was not adjacent to the MCA. The Commission noted that Belle Plaine had submitted a petition for EAS which, if approved, would render the LeSueur exchange adjacent to the MCA because LeSueur and Belle Plaine share a common border. The Commission, therefore, stayed action on the LeSueur petition pending the outcome of the Belle Plaine EAS petition.

On June 26, 1991, the Commission issued its ORDER CERTIFYING ELECTION RESULTS, DIRECTING INSTALLATION OF EXTENDED AREA SERVICE IN CERTAIN EXCHANGES, REQUIRING IMPLEMENTATION PLANS, AND CLOSING CERTAIN DOCKETS in the Belle Plaine docket (P-405, 421/CP-86-55) and other dockets. In that Order, the Commission certified the results of the polling conducted in Belle Plaine and ordered that the telephone companies providing service to Belle Plaine and the existing MCA make the necessary changes to include Belle Plaine in the MCA.

On December 3, 1991, the Commission issued its ORDER REQUIRING TRAFFIC STUDY directing USWC to file a traffic study indicating the percentage of LeSueur subscribers making one or more calls per month into the MCA.

On January 17, 1992, USWC filed a traffic study showing that during each of 12 months studied, at least 50 percent of the subscribers in the LeSueur exchange made at least one call to the MCA.

On February 20, 1992, the Commission issued its ORDER REQUIRING COST STUDIES AND PROPOSED RATES and the affected telephone companies filed their cost studies and proposed rates between April 4 and 7, 1992.

On May 27, 1992, the Minnesota Department of Public Service (the Department) filed its report and recommendations.

On June 11, 1992, USWC filed its response to the Department's report.

On September 22, 1992, the Commission met to consider this matter.

### **FINDINGS AND CONCLUSIONS**

#### **USWC's Cost Study**

The Department recommended that the Commission require USWC to refile its cost study using a lower cost of money, 10.24 percent. The Commission finds that USWC's cost study is adequate as filed and will approve it.

Cost factors used in calculating EAS rates should be forward looking, best estimates of the costs that will be experienced during the period that the rates will be in effect. The Commission finds that the return on equity (ROE) used by USWC meets that standard and is within the bounds of reasonableness.

The Commission has considered the Department's recommendation regarding the cost of money in several previous EAS rate setting Orders and rejected it. See, e.g. In the Matter of the Petition of Certain Subscribers in the North Branch Exchange for Extended Area Service to the Minneapolis/St. Paul Metropolitan Calling Area, Docket No. P-421/C-86-272, ORDER ADOPTING RATES FOR POLLING (May 22, 1992) and ORDER DENYING PETITION FOR RECONSIDERATION AND REHEARING (August 18, 1992). See also In the Matter of a Petition for Extended Area Service From Plainview to Rochester, Docket No. P-430, 421/C-91-35, ORDER ADOPTING RATES FOR POLLING (August 25, 1992) and In the Matter of a Petition for Extended

Area Service From the Nickerson Exchange to the Askov, Carlton, and Moose Lake Exchanges, Docket No. P-407, 421/C-89-105, ORDER ADOPTING RATES FOR POLLING (September 22, 1992).

The Commission notes, however, that in approving a cost study that includes a particular ROE figure it is simply finding that this particular return on equity figure is adequate in the context of determining EAS rates for polling. Because of the unique circumstances and goal of EAS rate setting, the Commission's finding here is not precedent for the company's return on equity in its next rate case. In the context of a general rate case, the Commission will approve a rate of return that is appropriate based on the facts presented at that time.

#### Eckles' Cost Study

The Department argued that the cost study submitted by Eckles was flawed and should be resubmitted because in calculating its lost access income the Company used the access rates that were in effect before the November 21, 1991 resolution in the Department's earnings investigation. Docket No. P-520/M-90-1091.

The Commission finds that Eckles' cost study should use its current access rates in calculating its lost access income. Therefore, the Commission will require Eckles to resubmit its cost study based on this current data. As indicated previously in this Order, cost factors used in calculating EAS rates should be forward looking, best estimates of the costs that will be experienced during the period that the rates will be in effect.

#### Cost Studies Provided by Other Affected Telephone Companies

The other affected telephone companies that provided cost studies and proposed rate in this matter were: United Telephone Company, GTE Minnesota, Vista Telephone Company, and Scott-Rice Telephone Company. The Department recommended that the Commission approve the cost studies submitted by these companies.

Upon review, the Commission finds that the cost studies filed by these companies are satisfactory and will approve them. However, the companies will have to adjust and refile their proposed rates in response to the cost study that Eckles is being required to refile in this Order.

### ORDER

1. Within two weeks of this Order, Eckles Telephone Company shall refile its cost study using the lower access rates that are currently in place.

2. Within 20 days after Eckles refiles its cost study pursuant to Ordering Paragraph 1, Eckles, U S West Corporation, United Telephone Company, GTE Minnesota, Vista Telephone Company, and Scott-Rice Telephone Company shall refile their proposed rates.
3. Within 10 days after the companies have refiled their proposed rates pursuant to Ordering Paragraph 2, the Minnesota Department of Public Service (the Department) shall file its report and recommendation regarding those revised rates.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster  
Executive Secretary

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